State of Tennessee
Department of Commerce and Insurance
Tennessee State Board of Accountancy
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www.tn.gov/commerce/boards/tnsba

Board Minutes

May 6, 2011

The meeting of the Tennessee State Board of Accountancy convened in the Andrew Johnson Tower, Nashville, Tennessee on Friday, May 6, 2001 at 8:30 a.m. Board Members present were: Stan Sawyer, Chair; Don Royston, Vice-Chair; Lisa Stickel, Secretary; Bill Blaufuss; Jennifer Brundige; Kenneth Cozart; Al Creswell; Shannone Raybon; Casey Stuart; and Doug Warren. Absent Board Members: Vic Alexander.

Staff Members present included: Mark Crocker, Executive Director; Don Mills, Investigator; Chris Whittaker, Staff Attorney; Laura Betty, Staff Attorney; Brenda Demastus and Kathy Riggs, Board Staff; and Kimberly Whaley for the Administration. Also present were Wendy Garvin and Brad Floyd from the Tennessee Society of Certified Public Accountants, Linda Biek from the National Association of State Boards of Accountancy, and Mr. David Haddock from Lattimore, Black, Morgan and Cain.

Mr. Sawyer called the meeting to order and announced that Steve Majchrzak (Assistant Commissioner for Regulatory Boards) had been appointed as the Deputy Commissioner for the Department of Commerce and Insurance. He stated that Bill Giannini from Memphis had been appointed the new Assistant Commissioner for Regulatory Boards. Mr. Sawyer reviewed his curriculum vitae and the highlights of his career. He went on to announce that final approval had been given to proceed with hiring an additional investigator. Mr. Sawyer's last announcement was that Mr. Al Creswell had decided not to seek reappointment to the Board when his term ends on 30 June 2011, so this is his last meeting.

Mr. Crocker then presented Mr. Creswell with an award commemorating his time on the Board and thanking him for his years of service.

Mr. Sawyer then asked the Board Members to review the minutes from the meeting on 28 January 2011. Mr. Blaufuss moved to accept the minutes as presented, with Mr. Royston providing a second for the motion. Passed unanimously.

Executive Director's Report:

Mr. Crocker stated that NASBA's Eastern Regional Conference will take place in Point Clear, Alabama on June 22-24, 2011. Those planning to attend are: Mark Crocker; Don

Mills; Lisa Stickel; Stan Sawyer; and Kenneth Cozart. Doug Warren will be in attendance in his role as Chair of the Board of Examiners. Topics this year will include Ethics and International Ethics, Private Company Standards, UAA Proposals under consideration (including the Firm Name Issue), Semi-Autonomous Boards, and Communicating with Licensees and the Public.

The ALD (Accounting Licensing Database) Committee is rolling out a new product named 'CPAVerify.' This product will allow the public to do an online license search on any CPA in any jurisdiction that is currently using ALD. This new site is available to Executive Directors only at this time. There are currently 32 states transmitting data to the ALD, 4 more are preparing for participation, and 13 more are committed. The committee is discussing the possibility of using a 56th jurisdiction to maintain records of unlicensed activity.

The Executive Directors Conference in San Diego was interesting, informative, and went very well. Rick Sweeney, the Executive Director of the Washington Board, was Chair of the Committee but was unable to attend the conference due to ill health. Pamela Ives Hill, Vice Chair from Missouri, stepped in and did a great job at short notice. The farewell tribute to David Costello was very well-received.

License counts are attached (Attachment A).

We have signed Peer Review Oversight Committee contracts signed with Tracy Thomas from Middle Tennessee and Charlie Millsaps from East Tennessee. The contract with David Curbo from West Tennessee has been sent to him but has not yet been returned with his signature.

Dr. Riggs prepared a summary of exam statistics dating back to the first quarter of 2007 (Attachment B).

The following State Holidays will be observed before the next meeting:

Monday, May 30, 2001
Monday, July 4, 2011

Proposed future meeting dates:

Friday, July 29, 2011
Friday, October 21, 2011
Friday, January 27, 2012
Friday, May 04, 2012
Friday, July 27, 2012
Friday, October 19, 2012

A position in Regulatory Boards has been reclassified to Investigator for the Board of Accountancy. This Department approved the request and it has been forwarded to DOHR (Department of Human Resources) for final approval. We have also submitted and Unfreeze Request for our AARB III position.

Twenty-seven of our licensees were referred to us by the Department of Revenue for non-payment of the Professional Privilege Tax. Seven of those have been resolved and an additional letter has been sent to the remaining twenty licensees.

This concluded Mr. Crocker's report. (The Executive Director's Report is included as Attachment 1.)

BOE Report:

Doug Warren reminded the Board that the computerized exam came out in 2004 and this past January the 'new' CBT-e rolled out. Forty-seven thousand sessions were scheduled and held with no errors. He noted that the Exam Review Board (ERB) is an independent body that audits all three parties to the exam (Prometric provides locations and computers; NASBA registers and processes applications; and AICPA writes and scores the exam). The ERB criticized all three parties for not keeping adequate statistics. There has always been a survey for candidates to complete with the exam, but it was all optional and not many candidates opted to complete the demographic information. The new CBT-e includes a survey but now all questions must be answered so that the demographics can be captured. The survey itself is still optional, but it is now an "All or Nothing" situation so that candidates completing the survey are required to provide demographic information.

Any time a new exam is released it must be validated and the passing rate reset (although a score of 75% will be retained). Consequently, the first three windows of 2011 will have scores held and all released at the end of the window as opposed to releasing scores twice during the window as has been done in the past. This could result in some requests to the Board in regard to extending the eighteen month completion requirement.

IFRS (International Financial Reporting Standards) was tested for the first time in the first quarter of 2011. IFRS questions are performing equally to all other questions (the same percentage answered correctly). Most of the exam review providers encouraged candidates to test in 2010 rather than under the new test in 2011, so the fourth quarter of 2010 administered over 300,000 sections – the normal number for a quarter is around 240,000. During the fourth quarter of 2010 Prometric accommodated candidates by providing extended hours.

Rule-Making Hearing:

The full transcript of the hearing is attached. (The transcript is included as Attachment 2.)

NASBA COMMITTEE REPORTS:

Communications Committee:

Ms. Stickel gave an update on the Communications Committee meeting she attended April 25-26, 2011 in New Orleans. She stated that a significant amount of time at this meeting was invested in a discussion Facebook and how to get other states online. There are three sub-committees under the Communications Committee: The Outreach Program; Social Media; and Task Force. Ms. Stickel stated that in the discussions of Social Media the main problems seem to be insufficient funds and lack of staff. The North Carolina Board has a Communications Manager on their staff that is responsible for entering information on Twitter and Facebook. Reaching licensees in this manner

reduces the number of phone calls and allows staff to devote more time to their daily tasks. We will continue to work for approval to join other State Boards on Facebook and Twitter.
This concluded Ms. Stickel's report.

UAA Committee:

Ms. Stickel stated that the UAA Committee had not met since 2010 and she hoped to have more to report at the next meeting.

State Board Relevance and Effectiveness Committee:

Ms. Brundige stated that this committee participated in a conference call in February of 2011 in order to get the committee organized. As a result, three sub-committees were put into place. They are:

State Board Support
State Society and AICPA and
Legislative Initiative

The State Board Relevance and Effectiveness Committee will meet on May 12, 2011. Ms. Brundige is on the Legislative Initiative Sub-Committee which will be working on communicating with legislators to give insight into the purpose of the committee. She stated that she should have more to report at the next meeting.

Peer Review Update:

Ms. Wendy Garvin, Professional Services Manager for TSCPA, gave an update on the Peer Review Program. There are about 900 firms enrolled with a due date for peer review and approximately 100 more firms enrolled which do not currently offer attest services. State Societies are now issuing oversight reports which are posted on the TSCPA website. This program oversights reviews, reviewers and firms. Ms. Garvin stated that the Peer Review Board met on May 3, 2011. This Board is composed of three task forces: The Standard Task Force is responsible for issuing standard requirements and the outcome of the program; The Overview Task Force deals with the oversight requirements within the program; and The Education Task Force works on scheduling a conference each year for training reviewers.

Jim Brackens, the Vice-President of AICPA Peer Review, works with State Boards and NASBA concerning rules and regulations. Mr. Brackens has indicated that a "Tool Kit" is being developed for presentation that would answer questions concerning the process of peer review. It should be available within the next six months.

Ms. Garvin also reported that the Peer Review Board held their quarterly meeting, and some of the highlights of that meeting included: 1. Broker-Dealer Engagements; and 2. Management Use Only Engagements. The AICPA is including Broker-Dealer Engagements in peer review so that PCAOB will have some assurance that these engagements are subject to oversight. The Peer Review Board also clarified that "Management Use Only" Engagements are not required to be peer reviewed, but firms offering that service may be reviewed if they choose to do so.

TNSBA COMMITTEE REPORTS:

Executive Committee:

Mr. Sawyer stated that the Committee had requested that the Board employees be allowed to evaluate the Executive Director. He stated that the Committee had reviewed that report and had accepted it (Attachment 3).

He also stated that the Committee had discussed the distribution of notices regarding signed Consent Orders. Notifications are currently sent to the AICPA, IRS, Municipal Audit, County Audit, Revenue and TSCPA. The Committee recommends that the local Better Business Bureau and the local Chamber of Commerce be added to the list. Mr. Crocker noted that when a license is suspended or revoked that information is sent to our Public Relations Officer for release to the press as well as being put on our website. The individual notifications to the agencies ensure that professional and local notifications are sent out. Mr. Royston moved to accept the two additions to the distribution list, seconded by Casey Stuart. Motion passed unanimously.

Mr. Sawyer then asked Mr. Crocker to review the Board's financial statements. A letter was sent to Commerce and Insurance as well as Finance and Administration inquiring about the 2011 budget but to date no response has been received. A motion was made by Bill Blaufuss and seconded by Casey Stuart that all correspondence regarding budgetary matters will be sent to Commerce and Insurance with a copy to Finance and Administration. This should put F & A on alert that the Board has prepared a budget and are within its budget parameters. (Financial Statements are included as Attachments 4 and 5.)

Mr. Crocker also stated that he would present the 2012 budget at the July meeting.

The Executive Committee recommends that the Board endorse the nomination of Kenneth Odom from Alabama as NASBA Director at Large. A motion was made by Casey Stuart to endorse Mr. Odom, second by Shannone Raybon. Ms. Stickel (as a member of NASBA's Nomination Committee) abstained from voting. Motion passed with no dissent.

The Executive Director's salary increase that the Board approved at the January meeting has been denied by Finance and Administration. The refusal was verbal and delivered by Assistant Commissioner Majchrzak. The Board Chair then sent a letter to Finance and Administration Commissioner Mark Emkes requesting a rationale for the refusal and that the response be in writing. No response has been received. Don Royston moved that the Board request an Attorney General Opinion on the matter, with a second from Kenneth Cozart. Motion passed unanimously.

This concluded Mr. Sawyer's report.

Independence Committee:

Ms. Stickel stated that the Independence Committee discussed TCA section 4-3-1304 which places the Board of Accountancy in the Department of Commerce and Insurance. She noted that there are some boards/agencies/commissions that are exempted by this

section. The Committee feels that the reason for exempting those particular entities should be examined. It was understood that the Committee needs a clear understanding of what they want to accomplish, have all information documented and then present it to the TSCPA in order to gain support from that organization. The TSCPA needs a clear road map of the direction the Board would like to pursue.

Ms. Stickel stated that a "To-Do" list had been created and would be sent to all committee members.

This concluded Ms. Stickel's report.

Licensing Committee:

The Society of Financial Service Professionals (Knoxville Chapter) has requested classification as an exempt education provider under Rule 0020-5-.05(3)(a). The Committee determined that the composition of the membership and the focus of the group did not meet the intent or the spirit of the rule and a recommendation was made to NOT award "exempt" status.

Ms. Brundige stated that the current CPE Audit contains 470 licensees and about 50% have responded to the audit notice. Of that number, approximately 92% are compliant.

This concluded the Licensing Committee report. Casey Stuart moved to accept the report and recommendation, seconded by Al Creswell. Motion passed unanimously.

Probable Cause Committee:

Doug Warren gave the report for Mr. Alexander. Mr. Warren reviewed statistics for our complaints and noted that cases to be referred to the Administrative Law Judge would be heard on 23 August 2011. Mr. Whittaker distributed the Legal Report for review. Mr. Royston recused himself from case number 2 and Mr. Warren recused himself fro case number 23. Ms. Stickel moved to accept the report with a second from Mr. Blaufuss. The motion passed unanimously with the abstentions noted. (Attachments 6 and 7.)

Mr. Warren made a motion to include a clause in Consent Orders issued as a result of a hearing before the Administrative Law Judge that those licenses be suspended until the licensees become compliant (with CPE or Professional Privilege Tax). Those Consent Orders will include a definitive time frame for corrective action by the licensee and if they fail to pay the Professional Privilege Tax or comply with the CPE audit requirements within the allotted time frame, then the license will be automatically revoked. Motion was seconded by Don Royston and passed unanimously.

Old Business:

None.

New Business:

Election of officers was held. Mr. Crocker stated that the nominations he had received to date were as follows:

Chair: Stan Sawyer
Vice-Chair: Don Royston
Secretary: Lisa Stickel

Bill Blaufuss moved to elect these by acclamation, seconded by Kenneth Cozart. Motion passed unanimously.

Legal Presentation:

Mr. Whittaker gave a presentation on the AECC (Accounting Education Change Committee) and education challenges for accounting students.

Board Interview:

Mr. Larry Tarwater appeared before the Board to ask that he be allowed to reinstate his license to practice public accountancy. Mr. Tarwater's license (number 6571) was revoked on 22 November 2004 as a result of Complaint Number 2000-02922-027. The complaint was opened because Mr. Tarwater had been convicted on three felony counts of filing false tax returns. In the Consent Order he signed to close that complaint, he was given the opportunity to apply to the Board for reinstatement after a four year period. Mr. Tarwater (accompanied by his attorney, Mr. Becker), addressed the Board and requested that his license be reinstated. After a series of questions by Board members, Mr. Al Creswell moved that the Board allow Mr. Tarwater to reinstate his license. The motion was seconded by Mr. Casey Stuart. A roll call vote was initiated to determine whether or not Mr. Tarwater should be allowed to reinstate:

Bill Blaufuss – No
Jennifer Brundige – Yes
Kenneth Cozart – Yes
Al Creswell – Yes
Shannone Raybon – Yes
Don Royston – No
Stan Sawyer – Yes
Lisa Stickel – No
Casey Stuart - Yes
Doug Warren – Abstain

With a vote of six (6) to three (3) and one (1) abstention, Mr. Tarwater will be allowed to reinstate his license upon completion of all requirements.

Motion to adjourn made by Lisa Stickel and seconded by Don Royston. Motion passed unanimously.

C. Don Royston

Chairman

Lisa M. Stickel

Secretary